

From: "Ricci Aquilani" <Ricci.Aquilani@clintonnational.net> on 03/29/2004 05:00:52 PM
Subject: Regulation BB - Community Reinvestment Act

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 200551
Re: Docket No. R-1181
Fax: (202) 452-3819
Email: regs.comments@federalreserve.gov

Dear Sir or Madam:

As a community bank compliance officer, I strongly endorse the federal bank regulators' proposal to increase the asset size of banks eligible for the small bank streamlined Community Reinvestment Act (CRA) examination from \$250 million to \$500 million and the elimination of the holding company size limit (currently \$1 billion). This proposal will greatly reduce the regulatory burden for Clinton National Bank, a \$252,000,000 bank located in Clinton, Iowa, and other banks our size in small communities, with fewer resources.

The small bank CRA examination process was an excellent innovation. As a community banker, I applaud the agencies for recognizing that it is time to expand this critical burden reduction benefit to larger community banks. At this critical time for the economy, this will allow more community banks to focus on what we do best-fueling America's local economies. When a community bank must comply with the requirements of the large bank CRA evaluation process, the costs and burdens increase dramatically. The resources devoted to CRA compliance are resources not available for meeting the credit demands of the community. For example, in my bank, we have just become subject to the "large bank" examination requirements because we have exceeded the existing threshold. We currently spend approximately 20 -25 man-hours per month to maintain our compliance efforts. We estimate that we will need to double the time currently spent on CRA compliance in order to comply with the "large bank" requirements. In addition, we will need to expend additional resources to accumulate the data necessary. As most community banks, we have a limited staff and are not able to assign a person or department solely to CRA compliance. Therefore, we draw resources from areas that could be better utilized to serve our community, promoting loan products and other services.

Adjusting the asset size limit also more accurately reflects significant changes and consolidation within the banking industry in the last 10 years. To be fair, banks should be evaluated against their peers, not banks hundreds of times their size. The proposed change recognizes that it's not right to assess the CRA performance of a \$500 million bank or even a \$1 billion bank with the same exam procedures used for a \$500 billion bank. Large banks now stretch from coast-to-coast with assets in the hundreds of billions of dollars and need to employ different methods to stay in tune with all the communities they try to serve. It is not fair to rate a community bank, operating in a limited market area, using the same CRA examination. While the proposed increase is a good first step, the size of banks eligible for the small-bank streamlined CRA examination should be

increased to \$2 billion, or at a minimum, \$1 billion.

Ironically, community activists seem oblivious to the costs and burdens imposed on the community bank by the regulations, which they promote, to control larger institutions. Yet, they object to bank mergers that would create efficiencies because they remove the local bank from the community. This is contradictory. If community groups want to keep the local banks in the community where they have better access to decision-makers, they must recognize that regulatory burdens are strangling smaller institutions and forcing them to consider selling to larger institutions that can better manage the burdens.

Increasing the size of banks eligible for the small-bank streamlined CRA examinations does not relieve banks from CRA responsibilities. The survival of many community banks, like mine, is closely intertwined with the success and viability of their communities. We strive to be aware of the needs of the community we serve because it benefits us. The increase in the asset size limit will merely eliminate some of the most burdensome requirements for the community banks that can least afford the drain on resources, and who generally are rated Satisfactory, anyway.

In summary, I believe that increasing the asset-size of banks eligible for the small bank streamlined CRA examination process is an important first step to reducing regulatory burden. I also support eliminating the separate holding company qualification for the streamlined examination, since it places small community banks that are part of a larger holding company at a disadvantage to their peers. While community banks still must comply with the general requirements of CRA, this change will eliminate some of the most problematic and burdensome elements of the current CRA regulation from community banks that are drowning in regulatory red-tape. I also urge the agencies to seriously consider raising the size of banks eligible for the streamlined examination to \$2 billion or, at least, \$1 billion in assets to better reflect the current demographics of the banking industry.

Sincerely,

Ricci S. Aquilani
Vice President
Clinton National Bank
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